

Larry and Barry Using REXScaledRoyalties.com [©]

Arthur Lipper

Larry: This website calculator really reflects what the negotiation process for royalties is all about.

Barry: What are you talking about?

Larry: The REXScaledRoyalties.com website allows users to see what will happen if the revenue projections we make are either exceeded or disappoint.

Barry: What do you mean? We use the revenue projections we think we can achieve and hope these produce royalties, which will be attractive to investors so we can sell them our royalty.

Larry: Yes but we really think we can do so much better than that we project for the investors and using the approach of Scaled Royalties if we do better by an agreed percentage for an agreed period the future royalty rate is reduced by an agreed amount.

Barry: That's a lot of agreements, which will have to be reached. However, it sure gives us an incentive to be very conservative in the projections we make as we have a significant benefit if we do better than projected.

Larry: Yes and the investor also does better in the Selected Adjustment Period or SAP as they call it. In the samples they use a 40% improvement over projected revenues in a 3-year SAP to result in a 25% reduction in the agreed royalty rate.

Barry: Ok, that seems reasonable but what about if we fail to get the revenues we think easily obtained?

Larry: Then the website calculates the difference between that which was expected and that delivered.

Barry: Then what?

Larry: Then we can agree to make up the difference in a note or extend the period of the royalty or agree to do something, which favors the royalty investor.

Barry: So there is no agreement as to what the specific penalty for disappointing revenue will be in either amount or form?

Larry: That's right but it will be worked out in the negotiation.

Barry: So the essence of the whole approach is "carrot and stick". We get an advantage to be conservative in our projections of revenues and therefore royalty payments and are punished if we are too optimistic in our projections.

Larry: That's it and it is the way most serious negotiations are going to be to be conducted, especially now with the website calculator so clearly and completely laying out the results of the various possible scenarios.

Barry: I like it very much if we can attract royalty investors with revenue projections, which are so low we are sure to be able to exceed them.

Larry: I am comfortable about the projections so let's try it as it will be a better deal for us and the investors like the idea of our being encouraged to be more conservative than would be the case otherwise.

Barry: Ok you produce the better than projected revenues and we will keep the royalty investors happy, even at a lower royalty rate. I will start by learning how best to use REXScaledRoyalties.com

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